4/12/78 [2]

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President Carter

President Jimmy Carter
American Society of Newspaper Editors
Tuesday, April 11, 1978

During the last fifteen months good progress has been made in sustaining growth and creating jobs. Four-and-a-half million more people are at work today than fifteen months ago. The unemployment rate has fallen by nearly twenty-five percent. Average household income, after adjustment for both taxes and inflation, is 5 percent higher now than a year ago. Business profits in the second half of 1977 were 15 percent higher than one year before, and during that time the inflation rate was held to a reasonable and predictable level.

But too many Americans -- particularly young people and members of minority groups -- are still without jobs. I am determined to sustain our economy's progress toward high employment and rising real income, with both existing programs and with new, carefully targeted incentives to encourage private business to hire the hard-core unemployed.

~~But~~ We have other economic problems which cause us continuing deep concern.

Our nation's economic health can be protected only if we can cope with the two developments that now threaten it most seriously -- the high level of oil imports and the increasing rate of inflation.

These two problems both imperil our economic recovery and threaten the strength of the dollar, and they must be controlled.

The steps that we will take are part of a wider international effort by the major industrial nations to promote world recovery in 1978. In this effort, each country has a role to play -- with the U.S. maintaining its growth while attacking inflation and limiting oil imports, other countries achieving their growth targets, and all countries avoiding protectionism and providing greater aid to developing countries. In the hope that this concerted approach will make a large contribution to world recovery, I joined the leaders of six other nations yesterday in announcing that we will meet on July 16 and 17 in Bonn to press ahead with our common efforts.

But the first requirement is effective action within each nation.

The primary reason for our problems with the balance of trade and the decreasing value of the dollar is no mystery. Ten years ago we were paying roughly $2 billion for imported oil. This year oil imports will cost us more than $45 billion.

Our energy problems are no longer theoretical or potential. They are an active threat to the economic well-being of our people.

Of all the major countries in the world the United STates is the only one without a national energy policy, and because the Congress has not acted, other nations have begun to doubt our will. Holders of dollars throughout the world have interpreted our failure to act as a sign of economic weakness, and these views have been directly translated into a decreasing value of our currency.

The falling dollar in international monetary markets makes inflation worse here at home. It raises the price of goods we import, and this makes it easier for domestic producers to raise their own prices as well.

That is why we must have meaningful energy legislation without further delay. Our security depends on it, and our economy demands it. If Congress does not act, then under present law oil imports will have to be limited by administrative action, which is not the most desirable solution. One way or the other, oil imports must be reduced.

Recently our healthy and sustained economic growth has exceeded that of most other nations who are our major trading partners, so we have been better able to buy their goods than they have to buy ours.

Our standard of living and our ability to grow depend on the raw materials and goods we import from other countries. Therefore, to prevent further serious trade imablances, we need to export more agricultural products and other goods and services to pay for our purchases abroad.

A Cabinet-level task force, chaired by the Secretary of Commerce, will develop additional measures to promote exports, and will report back to me within 60 days.

Now ~~Today~~ I will discuss the steps we must take to protect our national economic growth and the jobs and prosperity of our people from the threat of growing inflation.

Conserving energy, increasing efficiency and productivity, eliminating waste, reducing oil imports and expanding our exports will help to fight inflation; but making that fight a success will require firm government policies and full private cooperation.

The inflation we are suffering today began many years ago and was aggravated in 1973 and 1974 by a quadrupling of OPEC oil prices, widespread crop shortages, Soviet grain purchases, substantial devaluation of the dollar, and a worldwide industrial boom that led to double digit inflation in the United States and around the world. It now has become embedded in the very tissue of our economy. It has resisted the most severe recession in a generation. It persists because all of us -- business and labor, farmers and consumers -- are caught on a treadmill that none can stop alone. Each group tries to raise its income to keep up with present and anticipated rising costs; eventually we all lose the inflation battle together.

There are no easy answers. We will not solve inflation by increasing unemployment. We will not impose wage and price controls. We will work with measures that avoid both extremes.

Our first and most direct efforts are within government itself. Where government contributes to inflation, that contribution must be lessened; where government expenditures are too high, that spending should be reduced; where government imposes an inflationary burden on business, labor, and consumers, those burdens should be lightened; wherever government can set an example of restraint and efficiency, it must do so.

The budget I have proposed for the next fiscal year is both tight and capable of meeting the nation's most pressing needs. The prospective deficit in that budget is as large as we can afford without compromising our hopes for balanced economic growth and a declining inflation rate. As always, pressures are developing on all sides to increase spending and enlarge that deficit.

Potential outlay increases in the 1979 budget which are now being considered by Congressional committees would add between $9 billion and $13 billion to spending levels next year. The price of some of these politically attractive programs would escalate rapidly in future years. I am especially concerned about tuition tax credits, highway and urban transit programs, postal service financing, farm legislation, and defense spending.

By every means at my disposal, I will resist those pressures and protect the integrity of the budget.

Indeed, as opportunties arise, we must work to reduce the budget deficit, and to ensure that beyond 1979 the deficit declines steadily and moves us toward a balanced budget. I will work closely with the Congress and, if necessary, will exercise my veto authority to keep the 1979 budget deficit at or below the limits I have proposed.

The Federal government must also act directly to moderate inflation.

Two months ago I proposed that in each industry and sector of the economy wage and price increases this year be voluntarily held significantly below the average increase for the two preceding years -- an important principle of deceleration.

I am determined to take the lead in breaking the wage and price spiral by holding Federal pay increases down. Last year, Federal white collar salaries rose by more than seven percent. I intend to propose a limit of about 5.5 percent this year, thereby setting an example for labor and industry to moderate price and wage increases. This year I will also freeze the pay of all Executive appointees and members of my senior staff. I believe that those who are most privileged in our nation -- including other executives in government and in private companies -- should set a similar example of restraint.

State and local governments employ every seventh worker in our nation, and I have sent letters to every Governor and to the Mayors of our larger cities asking that they follow the Federal example and hold down their pay increases. I have also asked that if those governments plan to reduce taxes they first consider lowering sales taxes, which add directly to the consumer's burden.

The Federal government will take several other steps to reduce inflation.

-- All Executive Branch agencies will avoid or reduce the purchase of goods or services whose prices are rising rapidly, unless by so doing we would seriously jeopardize our national security or create serious unemployment. I am also asking that all new or renegotiated Federal contracts which contain price escalation clauses should reflect the principle of deceleration.

-- We must cut the inflationary costs which private industry bears as a result of government regulations.

Last month I directed Executive regulatory agencies under my control to minimize the adverse economic consequences of their actions. I am determined to eliminate unnecessary regulations and to ensure that future regulations do not impose unnecessary costs on the American economy. Our efforts to reorganize the Federal bureaucracy and to streamline the Civil Service will help us put the government's house in order.

I support "sunset" legislation to ensure that we review these regulatory programs every few years, to eliminate or change those that have become outdated.

I also urge Congressional budget committees to report regularly to the Congress on the inflationary effect of pending legislation, much as the Council of Economic Advisors and the Council on Wage and Price Stability now report to me.

-- The combined actions of my Administration and the Civil Aeronautics Board have already led to substantial cuts in some airline passenger fares. Despite the opposition of private interests, the airline regulatory reform legislation must be enacted this year. We are also re-examining excessive Federal regulation of the trucking industry, an effort which may result in increased efficiency while reducing freight transportation costs and retail prices.

In addition, I am asking the independent regulatory agencies to try to reduce inflation when they review rate changes, and to explore regulatory changes that can make the regulated industries more efficient.

-- Last fall, major new legislation was passed which will improve economic conditions for farm families, and we have announced additional administrative action to raise farm income this year.

Unfortunately, the Senate has just passed a bill that would raise food prices by ~~20~~ 3 percent and the overall cost-of-living by ~~3~~ 0.4 percent, shatter confidence in the crucial export markets for America's farm products, and cripple American farm families through increased costs. It is bad for farmers, bad for consumers, and bad for our nation.

I will veto any farm legislation, beyond what I have already recommended, that would lead to higher food prices or budget expenditures.

-- Housing construction rates have been at a high level and costs have risen rapidly, partly because of sharp increases in the price of raw materials such as lumber. Since lumber accounts for one-fourth of the total cost of a new house, we can obtain some relief by increasing production and using our existing lumber output more efficiently. Therefore, I have instructed the Departments of Agriculture and Interior, the Council on Environmental Quality, and my economic advisors, to report to me within 30 days on the best ways to sustain expanded timber harvests from Federal, State, and private lands, and other means of increasing lumber yields in ways that would be environmentally acceptable, economically efficient, and consistent with sound budget policy.

-- Daily hospital costs have jumped from $15 in 1950 to over $200 today, and physicians' fees have risen 75 percent faster than other consumer prices. It is very important that Congress act now on the proposed Hospital Cost Containment Bill as the most effective step we can take toward reasonable hospital prices. Failure of Congress to act on the Hospital Cost Containment legislation will cost the taxpayer more than $18 billion in needless government spending over the next five years.

Together with the airline deregulation bill, this is one of the two most important measures the Congress can pass to protect the public interest.

These measures have so far been delayed by the opposition of powerful lobbying groups. I will continue to give this legislation my full support, and I call on the leaders of Congress to do the same.

Such government actions as I have discussed today can be important steps toward controlling inflation. But it is a myth that the government itself can stop inflation. Success or failure in this overall effort will largely be determined by the actions of the private sector of the economy.

I expect industry and labor to keep price, wage and salary increases significantly below the average rate for the last two years. Those who set medical, legal, and other professional fees, college tuition rates, insurance premiums, and other service charges must also join in. This will not be easy. But the example of Federal action must be matched. Inflation cannot be solved by placing the burden of fighting it only on a few.

The Council on Wage and Price Stability recently began a series of meetings with representatives of business and of labor in major industries such as steel, automobiles, aluminum, paper, railroads, food processing, communications, lumber, and the postal service. In consultation with the private parties the Council will identify the rate at which prices, wages, and other costs have been rising in recent years, the outlook for the year ahead, and the steps that can be taken to decelerate inflation.

Let me be blunt about this point. I am asking American workers to follow the example of Federal workers and accept a lower rate of wage increase. In return, they have a right to expect a comparable restraint in price increases for the goods and services they buy. Our national interest simply cannot withstand unreasonable increases in prices and wages. It is my responsibility to speak out firmly and clearly when the welfare of our people is at stake.

Members of my Administration have already discussed this deceleration program with a number of leaders of labor, business and industry. ~~They~~ Many have promised their cooperation. Later I expect to meet with business and labor leaders to discuss contributions that they can make to help slow the rate of inflation. One of the most important contributions they can make is to show that restraint applies to everyone -- not just the men and women on the assemblyline, but also the managers in the executive suites. Just as I will freeze the pay of the top executives in the Federal government, the American people will expect similar restraint from the leaders of American business and labor.

I am determined to devote the power of my office toward the objective of reduced inflation. Our approach must be flexible enough to account for the variations in our complex economy -- but it must be comprehensive enough to cover most of the activities of our economy.

In the long run, we should develop special programs to deal with sectors of the economy where

TO ACCOMPLISH OUR DECLERATION GOALS IN THE PRIVATE SECTOR, I AM ASKING MY SPECIAL TRADE REPRESENTATIVE, ROBERT STRAUSS, TO TAKE ON ADDITIONAL DUTIES AS A SPECIAL COUNSELOR ON INFLATION. HE WILL WORK WITH ME, WITH TREASURY SECRETARY BLUMENTHAL, MY CHIEF FINANCIAL SPOKESMAN, WITH CHARLIE SCHULTZE, THE CHAIRMAN OF THE COUNCIL ON WAGE AND PRICE STABILITY AND ITS EXECUTIVE DIRECTOR, BARRY BOSWORTH. HE WILL HAVE SPECIFIC AUTHORITY TO SPEAK FOR ME IN THE PUBLIC INTEREST, AND WILL BE A MEMBER OF THE ~~EXECUTIVE~~ Steering COMMITTEE OF THE ECONOMIC POLICY GROUP UNDER THE CHAIRMANSHIP OF SECRETARY BLUMENTHAL.

government actions have the greatest potential for reducing inflation. These include housing, medical care, food, transportation, energy, and the primary metals industries. The members of my Cabinet will work individually and with the Council on Wage and Price Stability to develop and to announce early action to reduce inflation within their own areas of responsibility.

Reducing the inflation rate will not be easy and it will not come overnight. We must admit to ourselves that we will never cope successfully with challenge until we face some unpleasant facts about our problems, about the solutions, and about ourselves.

The problems of this generation are, in a way, more difficult than those of a generation before.

We face no sharply focused crisis or threat which might make us forget our differences and rally to the defense of the common good.

We all want something to be done about our problems -- except when the solutions affect us. We want to conserve energy, but not to change our wasteful habits. We favor sacrifice, as long as others go first. We want to abolish tax loopholes -- unless it's our loophole. We denounce special interests, except for our own.

No Act of Congress, no program of our government, no order of my own can bring out the quality that we need: to change from the preoccupation with self that can cripple our national will, to a willingness to acknowledge and to sacrifice for the common good.

As the nation prepared for the challenge of war, Walter Lippman addressed these words to our nation forty years ago:

"You took the good things for granted," he said. "Now you must earn them again. It is written: for every right that you cherish, you have a duty which you must fulfill. For every hope that you entertain, you have a task you must perform. For every good that you wish could happen . . . you will have to sacrifice your comfort and ease. There is nothing for nothing any longer."

These words of admonition apply to us now.

\# \# \#

Jim Fallows

President Jimmy Carter
American Society of Newspaper Editors
Tuesday, April 11, 1978

President Patterson, future President Hughes, ~~and~~ distinguished editors from around the nation, ladies + gentlemen.

1 During the last fifteen months we in the United States have made good progress ~~has been made~~ in sustaining growth and creating jobs. Four-and-a-half million more people are at work today than fifteen months ago. The unemployment rate has fallen from nearly 8% to a little more than 6 ~~by nearly twenty-five~~ percent. Average household income, after adjustment for both taxes and inflation, is 5 percent higher now than a year ago. Business profits in the second half of 1977 were 15 percent higher than one year before, and during that time the inflation rate was held to a reasonable and predictable level.

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These two problems both imperil our economic
2 recovery and threaten the strength of the dollar, ~~and~~ Both ~~they~~ must be controlled.

The steps that we will take are part of a wider international effort by the major industrial nations to promote world recovery in 1978. In this effort, each country has a role to play -- with the U.S. maintaining its growth while attacking inflation and limiting oil imports, other countries achieving their growth targets, and all countries avoiding protectionism and providing greater aid to developing countries. In the hope that this concerted approach will make a large contribution to world recovery, I joined the leaders of six other nations yesterday in announcing that we will meet on July 16 and 17 in Bonn to press ahead with our common efforts.

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no change —

leave as is

changes

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(b) This, I believe, is what was McIntyre proposed

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7

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8

"slow"
"reduce" or
"to enforce our principle of deceleration"

"Decelerate" is ok
transition word

Let me be blunt about this point. I am asking American workers to follow the example of Federal workers and accept a lower rate of wage increase. In return, they have a right to expect a comparable restraint in price increases for the goods and services they buy. Our national interest simply cannot withstand unreasonable increases in prices and wages. It is my responsibility to speak out firmly and clearly when the welfare of our people is at stake.

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In the long run, we should develop special programs to deal with sectors of the economy where government actions have the greatest potential for reducing inflation. These include housing, medical care, food, transportation, energy, and the primary metals industries. The members of my Cabinet will work individually and with the Council on Wage and Price Stability to develop and to announce early action to reduce inflation within their own areas of responsibility.

Insert A, attached

Reducing the inflation rate will not be easy and it will not come overnight. We must admit to ourselves that we will never cope successfully with challenge until we face some unpleasant facts about our problems, about the solutions, and about ourselves.

The problems of this generation are, in a way, more difficult than those of a generation before.

COPY APPROVED BY THE PRESIDENT

A/

To accomplish our deceleration goals in the private sector, I am asking my Special Trade Representative, Robert Strauss, to take on additional duties as my Special Counselor on inflation. He will work directly with me, with Treasury Secretary Blumenthal, my chief financial spokesman, with Charlie Schultz, the Chairman of the Council on Wage and Price Stability and its Executive Director, Barry Bosworth. He will have specific authority to speak for me in the public interest.

A

Copy from
VP

We face no sharply focused crisis or threat which might make us forget our differences and rally to the defense of the common good.

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# # #

THE PRESIDENT HAS SEEN

10:30 AM

C

THE WHITE HOUSE

WASHINGTON

FOR THE PRESIDENT AND MRS. CARTER

FROM GRETCHEN POSTON

DATE: 4 April 1978

SUBJECT: STATE VISIT OF THE PRESIDENT OF ROMANIA
12 April 1978

Please find attached the arrival and dinner scenarios for the visit indicated above.

ON THE OCCASION OF
THE VISIT OF
THE PRESIDENT OF ROMANIA
AND MRS. CEAUSESCU

ARRIVAL — Southwest Gate

10:00 A.M. Welcoming and Official Parties arrive White House, South Lawn.

10:20 A.M. Official Party preceding President and Mrs. Ceausescu arrives White House, takes South Lawn positions.

10:27 A.M. The PRESIDENT and MRS. CARTER arrive Diplomatic Reception Room.

10:29 A.M. The PRESIDENT and MRS. CARTER are announced, and enter grounds to edge of carpet.

(Music - "Man of the Hour")

10:30 A.M. The motorcade carrying President and Mrs. Ceausescu arrives - fanfare. Official introductions.

The PRINCIPALS proceed onto platform and into positions for honors.

(Romanian National Anthem)
(U.S. National Anthem)
(21-gun Salute)

The PRESIDENT and President Ceausescu descent platform for Inspection of Troops. Return to platform for remarks.

(All PRINCIPALS into new positions - see attached.)
(Translator onto platform and into position.)

Following remarks, PRINCIPALS return to positions facing south as Commander of Troops closes ceremony. Translator leaves platform.

All PRINCIPALS descend platform, ascend stairs to South Portico Balcony for press photo session. Continue into Blue Room for receiving line.

11:00 A.M. Coffee is served in Blue Room.

11:15 A.M. The PRESIDENT and President Ceausescu depart State floor for Oval Office.

MRS. CARTER departs State floor. Mrs. Ceausescu is escorted to Blair House.

ON THE OCCASION OF
THE VISIT OF
THE PRESIDENT OF ROMANIA
AND MRS. CEAUSESCU

Gp

Northwest Gate
Southwest Gate

DINNER

7:00 P.M. Dinner guests arrive Diplomatic Reception Room and are escorted to East Room.

(Harpist in Diplomatic Reception Room.)

7:15 P.M. Official Romanian Party departs Blair House.

7:20 P.M. Official Party arrives White House, proceeds to Red Room to await State Dept. official escort to Yellow Oval Room.

7:28 P.M. President and Mrs. Ceausescu depart Blair House.

The PRESIDENT and MRS. CARTER depart living quarters for North Portico.

(U.S.M.C. Orchestra in Main Hall.)

7:31 P.M. President and Mrs. Ceausescu are greeted by the PRESIDENT and MRS. CARTER, pause for press photo session, and proceed to Yellow Oval Room.

7:40 P.M. Guests (save Principals) depart Yellow Oval Room for East Room.

7:45 P.M. All PRINCIPALS arrive State floor via Grand Staircase, pause at foot of stairs for press photo session, proceed directly to East Room for receiving line. At end of receiving line, proceed to State Dining Room.

8:00 P.M. Dinner is served. Toasts.

(Strolling Strings perform during dessert.)

9:30 P.M. After-dinner guests arrive Diplomatic Entrance and proceed to China Room and Library for refreshments.

(Harpist in Diplomatic Reception Room.)

Dinner guests depart State Dining Room to Blue Room for coffee.

After-dinner guests are escorted upstairs for receiving line in cross hall, main floor. Proceed to East Room for seating.

9:50 P.M. All PRINCIPALS enter East Room and are seated for entertainment.

The PRESIDENT'S introductory remarks.

10:30 P.M. Conclusion of entertainment. Artists are thanked.

10:45 P.M. President and Mrs. Ceausescu are escorted to North Portico for departure.

The PRESIDENT and MRS. CARTER proceed to elevator for departure to family quarters.

All guests depart Residence.

ARRIVAL STATEMENT

G. Smith
4/10/78

Arrival Statement for State Visit of President Ceausescu of Romania 4/12-13/78

It is a pleasure and an honor for me to welcome President Ceausescu and his wife Elena to the United States.

His visit is an important step in the continuing evolution of good relations between Romania and the United States, which have expanded dramatically over the last decade. Trade has grown substantially, our governments consult more closely, and contacts between our peoples have increased. We want this process to continue.

Romania has come to play an increasingly important and constructive role in international affairs. It has achieved friendly relations with countries of all sizes and all ideological persuasions. It has sought to establish as guiding principles national sovereignty, independence, equality, non-interference, and mutual respect. We value President Ceausescu's active contributions in world affairs, and particularly respect his efforts to build bridges between countries that have been locked into opposing and hostile blocs. Although Romania and the United States have different political systems and belong to different military alliances, our goals, I believe, are similar: to build a more just international economic and political system so that people everywhere can live in peace and prosperity, with full respect for their human rights and fundamental freedoms.

Because our perspectives are different, we will not always agree. But by sharing our viewpoints we may arrive at insights of value to both our countries.

I look forward to our meetings with the confidence that they will mark another significant step in the growing cooperation between the United States and Romania. Mrs. Carter and I welcome you and Mrs. Ceausescu to Washington, and we wish you both a pleasant and useful visit.

# # #

DINNER TOAST

G. Smith
4/10/78

Talking Points for State Dinner Toast for President of Romania

1. Tonight we are welcoming the leader of a country which plays an active, constructive, and courageous role in international affairs. Romania was the first Eastern European country visited by an American president after World War II. Both of my predecessors as president have visited Romania, and this is President Ceausescu's fourth visit to the United States.

2. Romania was the first Warsaw Pact country to seek ways of ending the sharp divisions and confrontation in Europe and to find ways in which both sides could cooperate. The Romanian leadership was an early exponent of the political and economic benefits of detente. President Ceausescu himself has played an increasingly important role in this movement toward cooperation, and our relations have expanded rapidly since 1969. We have established a firm basis for them to continue.

3. We respect Romania's advocacy of the belief that all countries, regardless of their size or political system, should be treated as sovereign, independent, and equal -- and that they should suffer no interference in their internal affairs. The United States considers Romania's independence, sovereignty, and territorial integrity to be key elements of stability in Europe.

4. I appreciate President Ceausescu's willingness to help in securing lasting peace in the Middle East, reducing tensions in Europe, and creating friendlier relations between all the countries of the world.

5. We now have at hand the best available way to heal the military, economic, and humanitarian problems caused by the division of Europe. This is, of course, the Final Act of the Conference on Security and Cooperation in Europe, and the process of cooperation which has occurred because of it. The Final Act is an ambitious undertaking, but we believe that all the participating states should commit themselves to a review of its implementation and a dialogue on all its aspects, including the human rights provisions. I hope Romania will continue to play a useful role in this dialogue.

6. TOAST: To a man of determination who has worked tirelessly to enhance his country's independence; and to the Romanian people, who have our best wishes for a happy, prosperous, and dignified future.

# # # # #

SENATE PROPOSAL MADE TO CONFERENCE COMMITTEE ON MARCH 22, 1978

I. Duration of price controls

A. Price controls on the first sale of new natural gas to continue through December 31, 1984.

B. Price controls on the following categories of natural gas expire as of January 1, 1985:

(1) new natural gas; and

(2) natural gas qualifying for the special development incentive price except such gas legally required to be sold in interstate commerce on April 20, 1977; and

(3) natural gas subject to an intrastate contract where the contract price is greater than $1.00/mmBtu's on December 31, 1984.

II. Standby price control authority

A. The President or the Congress (by concurrent resolution) would have authority to reimpose price controls for a two-year period at any time after June 30, 1985, if certain parameters are exceeded. Price controls could only be reimposed once.

B. Both Houses of Congress could pass a concurrent resolution to veto the President's decision to reimpose price controls. (Expedited procedure to assure floor vote.)

C. The authority to reimpose controls would occur if FERC found that the weighted average first sale price of new natural gas sold during the previous 12 months exceeds the ceiling price (on the last day of the 12 months upon which the finding is based) if price controls had been in effect. The weighted average first sale price shall not include sales of those categories of high-cost gas deregulated upon date of enactment. (Section XXI.A.)

D. If price controls are reimposed, the new ceiling price shall be no lower than the ceiling price would have been had controls continued if effect past December 31, 1984. Such ceiling price shall be applicable to all sales after reimposition of controls. (No retroactive rollback.)

HOUSE PROPOSAL MADE TO CONFERENCE COMMITTEE ON MARCH 22, 1978

I. Duration of Price Controls

A. Price controls on the first sale of new natural gas to continue through June 30, 1985.

B. Price controls on the new natural gas category of natural gas expire as of July 1, 1985.

II. Standby Price Control Authority/Extension of Controls

A. DOE Study

On July 1, 1984, and January 1, 1985, DOE shall submit to the President and the Congress a study of natural gas prices, supplies, demand, and competitive conditions and market forces in the industry. This study shall include an evaluation whether supply/demand balance exists in natural gas markets.

B. Extension of Controls

(1) Presidential Action

Within 120 days but not less than 90 days before the date of the expiration of controls, the President may propose to extend the price controls.

The President's extension is effective unless one House of Congress disapproves the President's action within 60 days of its submission. This disapproval is effective as a veto of an extension of controls unless, within 30 days, the other House passes a resolution objecting to the first House's action -- in which case the President's proposal to extend controls is effective.

(2) Congressional Action

Within 90 days, but not less than 60 days before expiration of controls, either House of Congress may propose to extend controls by passing a resolution of the House. Controls are thereby extended unless, within 60 days of the action by the first House, the other House passes a resolution disapproving the extension resolution -- in which case the extension is not effective.

(3) Any extension of controls is for a 2 year period. There may be only a single extension of controls.

(4) The controls are extended by a continuation of the 15% per annum floating cap between July 1, 1985 and June 30, 1987.

SCHLESINGER PROPOSED RESOLUTION:

I. A. Extend controls to April 30, 1985.

I. Decontrol on deregulation day:

New gas (except OCS new reservoir, See IV. *infra*)
Intrastate Rollovers over $1.00
Special Incentive price (Senate)
High Cost gas (See XII, *infra*)

SCHLESINGER PROPOSED RESOLUTION:

Accept the Senate...decontrol mechanism, requiring a 6 month period when controls are off with a right to reimpose by the President or Congress through a concurrent resolution based on an FERC finding that the Senate trend line has been exceeded. (Material omitted appears in other sections.)

UNRESOLVED ISSUES NOT SPECIFICALLY ADDRESSED IN SCHLESINGER PROPOSAL

1. Are the DOE studies required (House)?
2. If price controls are reimposed, shall they be no lower than the trend line (Senate) or at the trend line (House)?
3. What shall be included in the calculation of the trigger?

SENATE PROPOSAL MADE TO CONFERENCE COMMITTEE ON MARCH 22, 1978

III. Initial ceiling price and rate of escalation

A. The initial new gas ceiling price (on April 20, 1977) would be $1.75/mmBtu's.

B. The initial ceiling price escalates at an annual rate equal to the consumer price index (established index not experimental ones); (1) plus: 3.5% from April 20, 1977 to April 20, 1981; and (2) plus 4.0% from April 21, 1981 to December 31, 1984.

C. The ceiling price applies to all new gas delivered at a given time regardless of the date of contract (i.e., no vintaging).

D. The new gas ceiling price would be adjusted (but not compounded) monthly.

HOUSE PROPOSAL MADE TO CONFERENCE COMMITTEE ON MARCH 22, 1978

III. Initial ceiling price and rate of escalation

A. Identical.

B. Substitute GNP deflator for consumer price index and December 31, 1982 for December 31, 1984.

C. Identical.

D. Identical.

E. Pre-deregulation Market Test

Commencing January 1, 1983, convert ceiling price mechanism to 6 month floating cap based upon ceiling price of December 31, 1982, plus 5%. Continue floating cap commencing July 1, 1983 based upon ceiling price of December 31, 1982, plus 10%.

Commencing January 1, 1984, base floating cap on weighted average new contract prices during first 6 months of 1983, plus 11-2/3%. Commencing July 1, 1984, base floating cap on weighted average new contract prices during second 6 months of 1983, plus 13-1/3%.

Commencing January 1, 1985, base floating cap on weighted average new contract prices during first 6 months of 1984, plus 15%.

SCHLESINGER PROPOSED RESOLUTION

Accept the Senate price ceilings, inflation plus 3 1/2% through 1981, 4% through 1985, (except allow 4 1/2% after 1985) . . . .

Use GNP for price calculations instead of C.P.I. throughout the entire proposal.

SENATE PROPOSAL

IV. Definition of new gas

A. Onshore (all but Outer Continental Shelf)

(1) Gas from a new well, the surface location of which is 2.5 miles or more from the surface location of an old well, or the completion location of which is 1000 feet or more deeper than the completion location of any old well within 2.5 miles; or

(2) Gas produced from a new well in a reservoir discovered on or after April 20, 1977; or

(3) Gas produced from a reservoir from which no gas was produced in commercial quantities (not including quantities used to test a well or for field uses) prior to April 20, 1977: Provided, however, that this shall not include gas produced from a reservoir that was previously penetrated by a well other than a new well

(a) from which oil or natural gas has been or is being produced in commercial quantities; and

(b) such gas could have been produced in commercial quantities from that well,

Provided further, that any natural gas produced from such reservoir and sold in interstate commerce prior to the date of enactment of this Act pursuant to the Emergency Natural Gas Act of 1977, or the emergency purchase authority of FPC Opinion 699-B (60 day sales and rollovers of those sales), shall not be considered, for the purpose of this provision, as having been produced prior to April 20, 1977.

HOUSE PROPOSAL

IV. Definition of New Gas

A. Onshore (all but Outer Continental Shelf)

(1) Gas from a new well, where a point at the surface directly above the completion location of the new well is 2.5 miles or more from the surface location of an old well, or where the completion location of the new well is 1000 feet or more deeper than the completion location of any old well within such 2.5 miles; or

(2) Gas produced from a reservoir from which no gas was produced in commercial quantities* (not including quantities used to test a well or for field uses) prior to April 20, 1977:

(a) Provided, however, that this shall not include gas produced from a reservoir if --

(1) the reservoir was penetrated by a well other than a new well prior to April 20, 1977 and oil or natural gas has been or is being produced in commercial quantities from such well; and

(2) gas from that reservoir could have been produced in commercial quantities from the penetrating well.

(b) Provided further, that any natural gas produced from such reservoir and sold in interstate commerce prior to the date of enactment of this Act pursuant to the Emergency Natural Gas Act of 1977, or the emergency purchase authority of FPC Opinion 669-B (60-day sales and rollovers of those sales), shall not be considered, for the purpose of this provision, as having been produced prior to April 20, 1977.

(c) Provided further, that any natural gas produced through a well other than a new well from such reservoir shall not qualify as new gas if suitable facilities for the production of gas from a reservoir and delivery of the gas to a pipeline were in existence on April 20, 1977.

* [Note: if natural gas has not been sold (delivered) from the reservoir prior to April 20, 1977, a rebuttable presumption would be created that gas had not been produced in commercial quantities from the reservoir.]

SCHLESINGER PROPOSED RESOLUTION

Accept House technical clarification on . . . directional drilling . . . .

UNRESOLVED ISSUES NOT SPECIFICALLY ADDRESSED IN SCHLESINGER PROPOSAL:

1. The House deleted IV. A. (2) as redundant. Is it to be deleted?

2. Is the House footnote (with the presumption) excluded or included?

SCHLESINGER PROPOSED RESOLUTION:

Onshore

Accept House "withheld" gas exclusion from the new gas definition.

SENATE PROPOSAL MADE TO CONFERENCE COMMITTEE ON MARCH 22, 1978

B. Outer Continantal Shelf

(1) Gas produced from a new lease (leased on or after April 20, 1977); or

(2) Gas produced from a reservoir discovered on or after July 27, 1976.

(3) U.S.G.S. will make the determination concerning the capability of the well to produce natural gas in commercial quantities in accordance with the criteria for establishing production stated in OCS Order #4, August 28, 1969.

C. Definitions

(1) Completed: means a well capable of gas production in commercial quantities, as determined by an appropriate state or federal authority having jurisdiction over the field activities of the producer.

(2) Discovered: penetration by a well of a reservoir capable of producing natural gas in commercial quantities. (Shall be without regard to additional drilling or other development necessary for actual commercial production.) Applies both onshore and offshore.

(3) New Well: Well completed on or after April 20, 1977, or was completed through an existing well with a completion location more than 1,000 feet deeper than the old completion location.

(4) Old Well: Well from which gas was produced in commercial quantities after April 20, 1977.

(5) Reservoir: A natural accumulation of producible crude oil, natural gas, or both, confined by impermeable rock or water barriers and characterized by a single natural pressure system or confined by lithologic or structural barriers which prevent pressure communication. (Applies both onshore and for the OCS.)

D. The State or Federal agency with jurisdiction over the well drilling will make the new gas determination, subject to FERC review and reversal if finding is not supported by substantial evidence.

(1) Initial FERC action to reverse must come within 30 days after notification of new gas determination.

(2) Final FERC action within 120 days after initial action.

E. Gas produced from the Prudhoe Bay Unit on the North Slope of Alaska and transported through the Alaska Natural Gas Transportation System shall not qualify as new gas.

HOUSE PROPOSAL MADE TO CONFERENCE COMMITTEE ON MARCH 22, 1978

B. Outer Continental Shelf

Gas produced from a new lease (leased on or after April 20, 1977).

C. Definitions

Note: The House definition of discovered appears on page four. It is, "Penetration by a well of a reservoir capable of producing natural gas in commercial quantities. (Shall be without regard to additional drilling or other development necessary for actual commercial production.)"

(1) New Well -- Well spudded on or after April 20, 1977, or drilled deeper through an existing well where the deeper drilling commenced on or after April 20, 1977 and the completion location is more than 1,000 feet deeper than the old completion location.

(2) Old Well -- Well from which gas was produced in commercial quantities after January 1, 1970 and before April 20, 1977; or well spudded after January 1, 1973 and capable of producing oil or natural gas prior to April 20, 1977.

(3) Reservoir -- A natural accumulation of producible crude oil, natural gas, or both, confined by impermeable rock or water barriers and characterized by a single natural pressure system. (Applies both onshore and for the OCS.)

D. The State or Federal agency with jurisdiction over the well drilling will make the new gas determination. FERC reviews and may reverse if agency determination is not supported by substantial evidence. Judicial review of FERC action is based upon arbitrary and capricious standard.

(1) Initial FERC action to reverse must come within 60 days after notification of new gas determination.

(2) Final FERC action within 120 days after initial action.

FERC may rescind a State's authority, after a hearing, if FERC finds agency is not implementing statutory standards consistent with Congressional intent and is thereby permitting gas to qualify as new gas which is not statutorily authorized.

E. Gas produced from the Prudhoe Bay Unit on the North Slope of Alaska and transported through the Alaska Natural Gas Transportation System shall not qualify as new gas.

SCHLESINGER PROPOSED RESOLUTION

Add new reservoirs (discovered after July, 1976) in old leases (Senate) to the definition of new gas, but do not deregulate such gas at the time of deregulation.

SCHLESINGER PROPOSED RESOLUTION

Accept House technical clarification on spud date for new wells . . . and marker wells.

SCHLESINGER PROPOSED RESOLUTION:

Provide 45 days for FERC review of State new gas findings.

UNRESOLVED ISSUES NOT SPECIFICALLY ADDRESSED IN SCHLESINGER PROPOSAL:

1. Is the OCS Order #4 in the Senate proposal to be included?
2. If so, its relationship with the discovered definition should be resolved.
3. Is the House provision allowing FERC to rescind a State's authority to make the new gas determination to be included?

SENATE PROPOSAL MADE TO CONFERENCE COMMITTEE ON MARCH 22, 1978

V. Special development incentive for gas produced from new onshore production wells

A. The first sale price for new onshore production wells shall be $1.75/mmBtu's as of April 20, 1977.

B. New production wells shall be defined as wells completed after April 20, 1977 in an old reservoir within 2 1/2 miles of an old well: Provided, however, that --

(1) The new well is located outside an existing proration unit for that old reservoir into which there was completed an old well, a completed well, or into which a well was being drilled on April 20, 1977; and

(2) The well is drilled at or beyond the next well spacing requirement.

C. A proration unit, for purposes of this section, is a nonexclusive term intended to describe that area of a reservoir designated by the State or Federal agency, with jurisdiction over field operations which will be effectively and efficiently drained by a single well. A proration unit may also be a drilling unit or a production unit or a unitization agreement or such other term designated or recognized by the appropriate State or Federal agency to describe that area of a reservoir which will be effectively and efficiently drained by a single well. In the absence of State statute or State agency action relating to the term proration unit, local custom or practice, such as voluntary unit agreements shall be the basis for applying such term.

D. Gas produced from the Prudhoe Bay Unit on the North Slope of Alaska and transported through the Alaska Natural Gas Transportation System shall not qualify under this section.

E. The first sale price will escalate at an annual rate of inflation equal to the consumer price index (adjusted monthly).

F. The ceiling price applies to all gas delivered from new production wells at a given time regardless of the date of contract (no vintaging).

G. The State or Federal agency with jurisdiction over the well drilling will make the new production well determination, subject to FERC review and reversal if finding is not supported by substantial evidence.

(1) Initial FERC action to reverse must come within 30 days after notification of new gas determination.

(2) Final FERC action within 120 days after initial action.

HOUSE PROPOSAL MADE TO CONFERENCE COMMITTEE ON MARCH 22, 1978

V. Special development incentive for gas produced from new onshore production wells and newly discovered OCS reservoirs.

A. The special development incentive price shall be $1.75/mmBTU's as of April 20, 1977.

B. (1) New onshore production wells shall be defined as onshore wells spudded after April 20, 1977 into an old reservoir within 2-1/2 miles of an old well: Provided, however, that --

(a) the new well is located outside an existing proration unit for that old reservoir;

(b) the well is drilled at or beyond the next well spacing requirement; and

(c) the completion location from which the gas is produced is greater than 5,000 feet deep.

The defined term "proration unit" means the area, designated by the State or Federal agency with jurisdiction over the drilling of wells, which may be efficiently drained by a well.

(2) The special development incentive price shall apply to gas produced from a reservoir located on an OCS lease issued prior to April 20, 1977 and discovered by a well spudded after July 27, 1976.

Discovered -- Penetration by a well of a reservoir capable of producing natural gas in commercial quantities. (Shall be without regard to additional drilling or other development necessary for actual commercial production.)

C. Identical.

D. The first sale price will escalate at an annual rate of inflation equal to the GNP deflator.

E. Identical.

F. The State or Federal agency with jurisdiction over the well drilling will make the new production well determination, subject to FERC review in the same manner as the new gas determinations.

SCHLESINGER PROPOSED RESOLUTION

Eliminate 5,000 foot exclusion in the House proposal proposal (Senate).

House proposal is identical to Senate March 7 (pre-clarification) proposal. No indication as to House view on Senate clarification.

SCHLESINGER PROPOSED RESOLUTION:

Add new reservoirs (discovered after July, 1976) in old leases (Senate) to the definition of new gas, but do not deregulate such gas at the time of deregulation.

Accept House technical clarification on spud date.

SCHLESINGER PROPOSED RESOLUTION:

Use GNP for price calculations instead of C.P.I.

SCHLESINGER PROPOSED RESOLUTION:

Provide 45 days for FERC review of State new gas findings.

UNRESOLVED ISSUES NOT SPECIFICALLY ADDRESSED IN SCHLESINGER PROPOSAL:

Is the House provision allowing FERC to rescind a State's authority to make the new gas determination to be included?

SENATE PROPOSAL MADE TO CONFERENCE COMMITTEE ON MARCH 22, 1978

VI. Production from a new well not qualifying as new gas or as a new onshore production well

A. First sale ceiling price of $1.45/mmBtu's as of April 20, 1977 (no vintaging).

B. The annual rate of escalation equal to the consumer price index (adjusted monthly).

C. The Federal Energy Regulatory Commission may increase the ceiling prices if justified under the just and reasonable standard of the Natural Gas Act.

VII. Other production not qualifying as new gas or as a new onshore production well

A. The first sale price for other interstate production not qualifying as new gas shall be the appropriate Federal Energy Regulatory Commission ceiling in effect on April 20, 1977.

B. Any interstate gas for which a Federal Energy Regulatory Commission ceiling has not been established shall have a first sale price (on April 20, 1977) of $1.45/mmBtu's (no vintaging).

C. The first sale price for uncommitted intrastate production not qualifying as new gas shall be $1.45/mmBtu's (on April 20, 1978) (no vintaging).

D. The annual rate of escalation equal to the consumer price index (adjusted monthly).

E. The Federal Energy Regulatory Commission may increase the ceiling prices if justified under the just and reasonable standard of the Natural Gas Act.

VIII. Exclusion of State severance taxes from first sale price

A. All first sale prices are exclusive of state severance taxes.

B. For purposes of exclusion from the first sale price, state severance taxes shall be limited to the percentage equivalent of the rate established by law as of December 1, 1977.

IX. Rollover contracts

A. Interstate

(1) Ceiling price of $.54/mmBtu's if the ceiling price applicable to the gas covered by the expiring contract is below that price.

(2) If the ceiling price applicable to the gas covered by the expiring contract is greater than $.54/mmBtu's, the new ceiling price is that price.

(3) The annual rate of escalation equal to the consumer price index (adjusted monthly). Escalation begins as of April 20, 1977 (no vintaging).

(4) The Federal Energy Regulatory Commission may increase the ceiling prices if justified under the just and reasonable standard of the Natural Gas Act.

HOUSE PROPOSAL MADE TO CONFERENCE COMMITTEE ON MARCH 22, 1978

VI. Production from a new well not qualifying as new gas or for special developmental incentive pricing.

A. Identical.

B. The annual rate of escalation equal to the GNP deflator.

C. Identical.

VII. Other production not qualifying as new gas or for special developmental incentive pricing.

A. Identical.

B. Any interstate gas for which a Federal Energy Regulatory Commission ceiling has not been established (including North Slope Alaskan gas) shall have a first sale price (on April 20, 1977) of $1.45/mmBtu's. (no vintaging)

C. Identical.

D. The annual rate of escalation equal to the GNP deflator.

E. Identical.

VIII. Exclusion of state severance taxes from first sale price

A. Identical.

B. Identical.

IX. Rollover contracts

A. Interstate

(1) Identical.

(2) Identical.

(3) The annual rate of escalation equal to the GNP deflator. Escalation begins as of April 20, 1977. (no vintaging)

(4) Identical.

SCHLESINGER PROPOSED RESOLUTION:

Use GNP for price calculations instead of C.P.I.

SCHLESINGER PROPOSED RESOLUTION:

Use GNP for price calculations instead of C.P.I.

SCHLESINGER PROPOSED RESOLUTION:

Use GNP for price calculations instead of C.P.I.

SENATE PROPOSAL MADE TO CONFERENCE COMMITTEE ON MARCH 22, 1978

B. Intrastate

(1) Ceiling price of $1.00/mmBtu's if the ceiling price applicable to the gas covered by the expiring contract is below that price except that gas produced from state owned lands (including lands owned by local government units) may receive the new gas price.

(2) If the ceiling price applicable to the gas covered by the expiring contract is greater than $1.00/mmBtu's, the new ceiling price is that price except that gas produced from state owned lands (including lands owned by local government units) may receive the new gas price. No intrastate contracts would be rolled back.

(3) The annual rate of escalation equal to the consumer price index (adjusted monthly). Escalation begins as of April 20, 1977 (no vintaging).

(4) The Federal Energy Regulatory Commission may increase the ceiling prices if justified under the just and reasonable standard of the Natural Gas Act.

X. Allocation Authority

A. Emergency

(1) Allocation to a pipeline would occur only after that pipeline had curtailed all low priority sales.

(2) In cases of emergency, the President shall have authority to order allocation of gas freed from boilers (pursuant to the Glenn amendment to the Public Utility Energy Policies Act) without affecting the exempt status, under the Natural Gas Act, of any party to the transaction.

(3) If at the conclusion of the above and if notified by a Governor that further measures under state authority are insufficient to protect high priority users as defined in ENGA, the President may require the sale of gas by any low priority user (any user other than a high priority user) (compensation was was provided in the Emergency Natural Gas Act).

(a) The President shall require allocation of gas from low priority users served by interstate pipelines prior to requiring allocation of gas from low priority users served by intrastate pipelines.

(4) The emergency allocation authority would be permanent. It would require a Presidential declaration of a natural gas emergency as defined in the Emergency Natural Gas Act (which has expired)*.

(5) The President would have authority to order allocation to —

(a) direct high priority users, or

(b) local distribution companies who are not serving low priority users and who need additional natural gas supplies to continue serving high priority users.

* The Emergency Natural Gas Act as such would not be extended. The voluntary sales authority contained in the Act would be included in the final natural gas bill because authority for such sales is contained in both the Senate and House versions of the bill.

HOUSE PROPOSAL MADE TO CONFERENCE COMMITTEE ON MARCH 22, 1978

B. Intrastate

(1) Ceiling price of $1.00/mmBtu's if the ceiling (contract) price applicable to the gas covered by the expiring contract is below that price except that State royalty share of gas produced from State owned lands (including lands owned by local government units) and state owned production from such lands may receive the new gas price.

(2) If the ceiling(contract)price applicable to the gas covered by the expiring contract is greater than $1.00/mm Btu's, the new ceiling price is that price except that State royalty share of gas produced from State owned lands (including lands owned by local government units) and State owned production from such lands may receive the new gas price. No intrastate contracts would be rolled back.

(3) The annual rate of escalation equal to the GNP deflator. Escalation begins as of April 20, 1977. (no vintaging)

(4) Identical.

X. Allocation Authority

A. Emergency

(1) In cases of emergency, the President shall have authority to order allocation of interstate gas among or between interstate pipelines.

(2) In cases of emergency, the President shall have authority to order allocation of gas freed from boilers (pursuant to the Glenn amendment to the Public Utility Energy Policies Act) without affecting the exempt status, under the Natural Gas Act, of any party to the transaction.

(3) Allocation to an interstate pipeline may be made only after that pipeline had terminated all industrial service (not including essential gas supplies for plant protection).

(4) The emergency allocation authority would be permanent. It would require a Presidential declaration of a natural gas emergency as defined in the Emergency Natural Gas Act (which has expired).*

(5) The President would have authority to order allocation to higher priority users served by

(a) a pipeline, or

(b) local distribution company

if the pipeline or distribution company is not serving low priority users and needs additional natural gas supplies to continue serving high priority users.

* Identical.

SCHLESINGER PROPOSED RESOLUTION:

Limit the eligibility for the new gas price for intrastate rollovers on state lands to the gas associated with State production, i.e., state royalty gas.

SCHLESINGER PROPOSED RESOLUTION:

Use GNP for price calculations instead of C.P.I.

CONFEREES' PROPOSED RESOLUTION (FROM WEEK OF APRIL 4, 1978):

X. Allocation Authority

A. Emergency

(1) Allocation to a pipeline would occur only after that pipeline had curtailed all low priority sales.

(2) In cases of emergency, the President shall have authority to order allocation of gas freed from boilers (pursuant to the Glenn amendment to the Public Utility Energy Policies Act) without affecting the exempt status, under the Natural Gas Act, of any party to the transaction.

(3) If at the conclusion of the above and if notified by a Governor that further measures under state authority are insufficient to protect high priority users as defined in ENGA, the President may require the sale of gas by any low priority user served by an interstate pipeline (any user other than a high priority user) (compensation was was provided in the Emergency Natural Gas Act).

(4) The emergency allocation authority would be permanent. It would require a Presidential declaration of a natural gas emergency as defined in the Emergency Natural Gas Act (which has expired)*.

(5) The President would have authority to order allocation to —

(a) direct high priority users, or

(b) local distribution companies who are not serving low priority users and who need additional natural gas supplies to continue serving high priority users.

(6) Each emergency declaration shall be limited to 120 days. May have successive emergency declarations.

B. The Federal Energy Regulatory Commission shall study and submit a report to Congress by January 1, 1979 whether allocation of additional intrastate gas is likely to be necessary to meet human needs (as defined in the Emergency Natural Gas Act) in times of a natural gas supply emergency.

SENATE PROPOSAL MADE TO CONFERENCE COMMITTEE ON MARCH 22, 1978

(6) Each emergency declaration shall be limited to 120 days. May have successive emergency declarations.

. Non-price regulation

A. FERC would have authority to specify duration of contracts (not to exceed 15 years or life of reservoir whichever is shorter) for purchases by pipelines (both interstate and intrastate).

B. FERC would be directed to implement the following:

(1) Require OCS contracts to be for a minimum 15-year term.

(2) Provide for a right-of-first-refusal on interstate rollovers.

(3) Require all new contracts for gas sales to be filed with FERC.

I. High cost gas

A. Following categories of high cost gas would be deregulated immediately:

(1) Devonian shale;
(2) Occluded gas from coal seams;
(3) New wells drilled to a depth greater than 15,000 feet; and
(4) Geopressurized brine.

HOUSE PROPOSAL MADE TO CONFERENCE COMMITTEE ON MARCH 22, 1978

Identical.

XI. Non-price regulation

A. FERC would have authority to specify duration of contracts (not to exceed 15 years or life of reservoir, whichever is shorter) for purchases by pipelines (both interstate and intrastate). With respect to new contracts, and consistent with the ceiling price authorities set forth in the legislation, FERC would have authority to limit or prohibit price redetermination, renegotiation or other price reopener clauses as a necessary adjunct of its authority to regulate contract duration.

B. FERC would be directed to implement the following:

(1) Identical.

(2) Identical.

(3) Require all new contracts for gas sales (as well as ancillary agreements) to be filed with FERC.

C. FERC would have authority to prevent circumvention of price rules.

D. FERC would have authority to prescribe general interpretive and definitive rules.

E. Natural gas producers would be required to operate their natural gas producing properties as "prudent operators", a test which encompasses the obligations:

(1) To develop the properties consistent with the performance requirements of lease agreements with mineral owners;

(2) All rules and regulations of any Federal, State or local government having jurisdiction; and

(3) The standard of what a reasonably prudent operator would do with respect ot the drilling, completion, workover, recompletion or abandonment of wells.

Enforcement of this requirement would be exclusively by the State regulatory agency which regulates production. Federal financial assistance would be authorized to aid States in implementation of FERC-approved State enforcement plans.

XII. High cost gas

A. Following categories of high cost gas would be deregulated immediately if the gas is purchased by the user from the producer

(1) Devonian shale;

(2) Occluded gas from coal seams;

(3) Geopressurized brine.

B. The following categories of high cost gas would receive a ceiling price equal to Btu equivalence with imported No. 2 fuel oil plus 10¢ premium in the case of all other sales:

(1) Devonian shale;

(2) Occluded gas from coal seams; and

(3) Geopressurized brine.

SCHLESINGER PROPOSED RESOLUTION

Permit FERC regulation of contract duration up to 15 years or life of reservoir.

UNRESOLVED ISSUES NOT SPECIFICALLY ADDRESSED IN SCHLESINGER PROPOSAL:

1. Shall FERC have authority to limit the operation of price redetermination, renegotiation, or other price reopener clauses as proposed by the House?

2. Shall all ancillary agreements be required to be filed with FERC along with new contracts as proposed by the House?

3. Shall FERC have authority to prevent circumvention of price rules and to prescribe general interpretive and definitional rules as proposed by the House?

SCHLESINGER PROPOSED RESOLUTION

Do not include the prudent operator standard with regard to producer regulations.

SCHLESINGER PROPOSED RESOLUTION:

Include wells below 15,000 feet in the high cost category (Senate).

Impose a ceiling price of $3.50 per mcf plus inflation on all categories except geopressurized methane. Deregulate on day of deregulation.

Decontrol geopressurized methane (Senate).

NOTE: The $3.50 cap would be applied to all high cost sales, except geopressurized methane, without regard to who purchases the gas. Geopressurized methane would not be required to be sold directly to an end-user as a condition to deregulation.

SENATE PROPOSAL MADE TO CONFERENCE COMMITTEE ON MARCH 22, 1978

B. In addition, authorize FERC to establish reasonable price incentives to encourage investment in development of high-cost gas (including but not limited to gas produced from wells in more than 500 feet of water, gas from tight formations with little permeability).

C. Include report language that would clearly explain that this authority is intended to be applied in advance of drilling activity, in order to create price incentives, is not cost-based in nature, and does not require cost justification.

D. If there are special credits for high cost natural gas production in a final energy tax bill, the producer may choose whether to take advantage of the high cost gas price or the special tax credits. Choice must be made prior to drilling.

HOUSE PROPOSAL MADE TO CONFERENCE COMMITTEE ON MARCH 22, 1978

C. In addition, direct FERC to establish reasonable price incentives to encourage investment in development of high-cost gas (including but not limited to gas produced from wells in more than 500 feet of water, gas from tight formations with little permeability and gas from new wells drilled to a depth greater than 15,000 feet).

D. Identical.

E. If there are special credits for high-cost natural gas production in an energy tax bill, the category may not qualify for special price treatment.

UNRESOLVED ISSUES NOT SPECIFICALLY ADDRESSED IN SCHLESINGER PROPOSAL:

1. If special tax credits are allowed, does the high cost gas not qualify for high cost price treatment as proposed by the House, or may the produce choose the tax credit or the high cost price treatment prior to drilling as proposed by the Senate?

XIII. Stripper wells

(Senate)

A. Establish a first sale price of $2.09 for gas produced from stripper wells.

B. Stripper wells shall be defined as non-associated gas wells producing up to 60 mcf per day.

C. This provision shall not apply to natural gas liquids.

D. The annual rate of escalation would be the same as provided for new gas (See III.B.) but shall continue in effect after December 31, 1984 at 4%, unless the well qualifies for deregulation (in Section I.).

XIII. Stripper Wells

(House)

A.

B. Stripper wells shall be defined as non-associated gas wells producing up to 60 Mcf/day during calendar year 1977.

C. Identical.

D. The annual rate of escalation would be the GNP deflator.

E. Instruct FERC to provide a rule whereby wells producing above 60 Mcf/day in 1977 may qualify as strippers. Also instruct FERC to provide mechanism for such future stripper wells to retain stripper status if the producer uses recognized enhancement techniques and thereby increases production.

SCHLESINGER PROPOSED RESOLUTION:

Accept the Senate price of $2.09 per mcf plus the 3 1/2 percent and 4 percent escalator.

Accept House definitional standards for stripper status.

Use GNP for price calculations instead of C.P.I.

XIV. Incremental Pricing

(Senate)

A. Within 18 months after the date of enactment the FERC shall develop and submit to Congress for review, two rules providing for incremental pricing of natural gas.

B. (1) One rule shall provide that major fuel burning installations (as defined in the coal conversion bill including all exceptions therein) shall pay the increased prices of high cost supplies as defined in this section until the cost to such low priority users equals the reasonable price of substitute fuels.

(2) The second rule shall provide that other low priority users shall also be included in the category of users who pay the increased prices of high cost supplies as provided in (1) above. FERC will not be required to submit this second rule if, by a majority vote of the Commission, the rule is determined to be contrary to the public interest. Such determination shall be transmitted to Congress, accompanied by the reasons for the determination.

XIV. Incremental Pricing

(House)

A. (1) Require FERC to develop, within one year, a rule for incremental pricing of industrial boiler fuel gas supplied by interstate pipeline up to the cost of substitute fuel oil. There would be no Congressional review of this FERC rule.

This requirement would apply at both the wholesale (pipeline) and retail (local distribution company) levels.

(2) Authorize FERC to delegate enforcement of this requirement to State regulatory agencies in the case of implementation by local distribution companies or pipelines not subject to FERC jurisdiction.

(3) Authorize FERC to exempt from this requirement any pipeline wnot subject to regulation under the Natural Gas Act which also has no customers other than industrial users and electric utilities.

B. (1) In addition, within 1 year require FERC to develop a rule or statement of policy for incremental pricing of increased costs of natural gas acquired by interstate pipelines to other low priority industrial users of natural gas.

(2) This incremental pricing rule or statement of policy must be submitted to the Congress for review. Either House may disapprove the rule or statement of policy (in which event it may not be implemented) by passing a resolution of disapproval within 60 legislative days of its submission.

C. (1) Each FERC rule and statement of policy shall provide that low priority users pay the increased costs of natural gas until the prices paid by low priority users equal the reasonable cost of substitute fuel oil determined by FERC on a regional basis. The increased costs of natural gas to be incrementally priced include the increased costs of natural gas resulting from this legislation, costs of SNG, and costs of LNG imports.

(2) Provide that after all incrementally priced users on a pipeline are paying the Btu equivalent price of substitute fuel oil, further increases in the average cost of gas are borne by all customers of the pipeline. Leave determination regarding handling of further cost increases at local distrubution company level to State P.U.C. so as to avoid load shifting problems.

SCHLESINGER PROPOSED RESOLUTION:

Incrementally price in the interstate market

a. New
b. Intrastate rollovers over $1.00
c. Special Incentive Gas

only to the extent those prices exceed $1.48 per mcf plus inflation (the last just and reasonable cost based price).

Incrementally price high cost gas only to the extent it exceeds the average price of foreign substitutes

Adopt the 300 mcf per day exemption for FERC Incremental Pricing Rule Number 1 applicable to industrial boiler fuel users.

Pass the price above 1.48 per mcf plus inflation on as a per mcf surcharge to distribution company's based on the number of mcf's delivered in an earlier period by such distribition companies to industrial end users whose price is below the BTU equivalent of substitute fuels. This avoids mandating federal interference in State ratemaking proceedings and leaves pricing above the BTU equivalency to the States.

STAFF NOTES:

1. Under the House proposal, the portion of any pipeline's or local distribution company's average cost of gas which exceeds that pipeline's or distribution company's historical average cost of gas, adjusted by inflation, is incrementally priced. This mechanism does not look to specific categories of gas but rather focuses on increases in the average cost of gas.

2. Under the Schlesinger proposal, the intention is to require the flow-through of any such incremental pricing surcharges to the covered industrial end-users served by distribution companies.

SENATE PROPOSAL MADE TO CONFERENCE COMMITTEE ON MARCH 22, 1978

(a) The FERC shall determine whether the rule shall be applicable at both the wholesale (pipeline) and retail (local distribution company) levels or merely at the wholesale level.

(b) The price of substitute fuels shall be determined on a regional basis and shall not take into account the intrinsic value of natural gas used for process or feedstock purposes.

C. The term "other low priority users" shall be defined as all users except residential (including both single and multiple family dwellings with individual meters) and small commercial users (those using less than 50 mcf in a commercial establishment on a peak day).

D. The term "high cost supplies" shall be defined as follows:

(1) "New" natural gas (under Section IV) shall be included.

(2) New LNG imports shall be included if the import price exceeds the new natural gas price (LNG imports for which substantial financial or binding contractual commitments have been made and those already approved by the FPC or DOE shall be excluded).

(3) Natural gas imports that exceed the new natural gas ceiling price and are in excess of current volumes.

E. FERC may propose to make deletions from "other low priority users" and/or additions to "high cost supplies" at any time by submitting a recommendation to Congress for review.

F. The rule submitted to Congress shall include an evaluation of the following:

(1) The effect of the proposed rule on prices paid for natural gas by residential and small commercial users.

(2) The effect of the proposed rule on prices paid for natural gas by large industrial process, and feedstock users.

(3) The effect of the proposed rule on prices paid by users of electricity generated by natural gas.

(4) The views of the FERC as to whether the proposed rule should be approved or disapproved by the Congress.

G. Either House of Congress may veto the FERC's proposal.

(1) A 60-day period shall be provided for review of the initial incremental pricing plan.

(2) Proposed changes shall be subject to a 30 day review.

(3) Expedited procedures will be provided to assure a floor vote on the issue.

H. FERC retains existing discretionary authority for incremental pricing. However, that shall not apply to natural gas produced from the Prudhoe Bay Unit and transported through the Alaska Natural Gas Transportation System which shall be rolled in.

I. Incremental pricing shall not apply to natural gas sold to other low priority users under a contract in effect on January 1, 1978.

HOUSE PROPOSAL MADE TO CONFERENCE COMMITTEE ON MARCH 22, 1978

D. A FERC statement of policy would be implemented by interstate pipelines through their tariff filings which would be reviewed by FERC for compliance with the statement of policy on a case-by-case basis.

E. High priority users are residential and small commercial (those using less than 50 Mcf on a peak day) users. Low priority users are all other users.

F. (1) FERC may propose to reclassify categories of low priority users as high priotity users. FERC must submit any proposal to reclassify users as a separate Energy Action subject to 30-day Congressional review (one House veto).

(2) FERC may submit amendments to, or exemptions from (including any exemption for the Alaskan Natural Gas Transportation System), either rule or statement of policy as separate Energy Actions subject to 30-day Congressional review (one House veto).

G. The rule submitted to Congress shall include an evaluation of the following:

(1) The effect of the proposed rule on prices paid for natural gas by residential and small commercial users.

(2) The effect of the proposed rule on prices paid for natural gas by large industrial process, and feedstock users.

(3) The effect of the proposed rule on prices paid by users of electricity generated by natural gas.

H. FERC retains existing authority under the Natural Gas Act.

SCHLESINGER PROPOSED RESOLUTION:

No Congressional review of FERC Rule Number 1 (House).

Retain one House veto as specified in both proposals for Rule Number 2.

SCHLESINGER PROPOSED RESOLUTION:

Require rolled-in pricing for the Prudhoe Bay oil pool gas (Senate).

UNRESOLVED ISSUES NOT SPECIFICALLY ADDRESSED IN SCHLESINGER PROPOSAL:

How long shall FERC have to develop the incremental pricing rules?

SENATE PROPOSAL MADE TO CONFERENCE COMMITTEE ON MARCH 22, 1978

XV. Special contract for certain intrastate gas purchases*

Authorize FERC to allow intrastate pipelines to assign to interstate pipelines and distribution companies the right to receive surplus (as determined by an appropriate State agency) natural gas that is subject to a price ceiling under this Act without affecting the exempt status, under the Natural Gas Act, of any party to the transaction.

XVI. Effect on state laws

A. Nothing in this Act shall affect state laws which prescribe a price ceiling for sales of gas in intrastate commerce lower than the ceiling prescribed under this Act.

B. The termination of what constitutes a new reservoir shall be used solely for the purpose of qualifying for new gas price. It shall not affect state laws for any other purpose.

XVII. Existing Intrastate Contracts

Intrastate contracts in existence on the day of enactment of this Act shall be sanctified, provided that:

(1) if the contract price is above the new natural gas ceiling price on the date of enactment of the Act, the contract price may escalate with the CPI until such price equals the ceiling price for new natural gas, at which time the price may escalate with the new natural gas ceiling price, if the contract so permits;

(2) if the contract price is below the new natural gas ceiling price on the date of enactment of the Act, the contract price may escalate, under the terms of the contract, to the applicable new natural gas ceiling price, if the contract so permits.

* This provision was originally developed to make it possible for intrastate pipelines to assign their contracts for gas supplies that are surplus to demand due to seasonal market fluctuations. Some would like to broaden the provision to authorize intrastate pipelines to make sales to interstate pipelines or to transport gas for interstate pipelines without becoming subject to FERC jurisdiction. A new provision is contemplated for the second purpose. It would authorize FERC to allow interstate and/or intrastate pipelines to transport or sell natural gas to and from each other, and to make a fair and equitable return on such transactions, with no jurisdictional consequences.

HOUSE PROPOSAL MADE TO CONFERENCE COMMITTEE ON MARCH 22, 1978

XV. Special contract for certain intrastate gas purchases

Identical.

XVI. Effect on state laws

Identical.

XVII. Existing Intrastate Contracts

Identical.

SENATE PROPOSAL MADE TO CONFERENCE COMMITTEE ON MARCH 22, 1978

XVIII. Applicability of New Ceilings

All ceiling prices are applicable as of the date of enactment. (Escalator may begin on April 20, 1977 but actual new price takes effect upon enactment.)

XIX. Treatment of Costs of Gathering Compression, etc.

The current authority of FERC relative to ceiling price adjustments for the costs of compression, gathering, processing, liquifaction, or transportation is retained. No statutory provision is necessary.

XX. Intervention

The Department of Energy would have authority to intervene in state regulatory proceedings dealing with curtailment of gas production. (Intervention would be the same type of intervention authorized in the conference agreement on the Public Utility Energy Policies Act.)

* * * * *

NOTE: Like previous proposals, this does not attempt to address all of the issues before the Conferees. There are a number of provisions which are contained in both bills (e.g., effect of price redetermination clauses in interstate contracts) that would be retained. There are also a number of subjects addressed in both bills (e.g., agriculture priority, authority for intrastate pipelines to transport interstate gas without becoming subject to Federal jurisdiction) that would also be retained in a compromise form.

HOUSE PROPOSAL MADE TO CONFERENCE COMMITTEE ON MARCH 22, 1978

XVIII Applicability of New Ceilings

Identical.

XIX. Treatment of Costs of Gathering, Compression, etc.

The wellhead price will include the cost of gathering, compressing, treating, or processing of the natural gas. FERC can make total or partial exceptions for unusually high costs.

XX. Intervention

Identical

NOTE: Identical.

SCHLESINGER PROPOSED RESOLUTION:

Leave current discretion in FERC (Senate).

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

Infl speech
J

TO: THE PRESIDENT

FROM: W. Bowman Cutter WBC

SUBJECT: Major Potential Congressional Increases to the 1979 Budget

I have attached a listing of the major potential congressional increases to the 1979 budget. The listing identifies potential additions to 1979 outlays of $9-1/2 to $13 billion. Although each of these additions are being given serious consideration in the Congress, it would be misleading to characterize the total as a likely outcome of congressional action on your budget request.

Some of the changes identified will be reduced through negotiations; others may not reach final stages in the legislative or appropriations processes. The House Budget Committee, for example, has shown relative restraint in the first 1979 resolution. The Committee has completed its action on the resolution calling for a spending total of $501.4 billion, receipts of $443.3 billion and a deficit of $58.1 billion. The Senate Committee has not completed its action but may not recommend appreciably larger totals.

Nevertheless, the pressures for more spending and tax changes in the Congress will make it very difficult to reduce the deficit below the $58 to $60 billion level. For this reason, when you issue your anti-inflation policy, we would prefer as strong a statement as you feel you can make about the need to hold to your proposed 1979 budget totals. But the realities of the situation suggest that you should be cautious in stating that you will try to reach the 1978 deficit level currently estimated at $53 billion.

Attachment

ATTACHMENT

MAJOR POTENTIAL CONGRESSIONAL CHANGES TO THE 1979 BUDGET

I. Authorization Bills

Several major authorization bills are under considera'tion in the Congress that, if enacted and fully-funded by the Appropriations Committees, could add $4.1 to $6.8 billion to the 1979 Budget.

Name of Bill	(Outlays in billions of dollars) 1979	1980	1981	1982
Farm Price Supports, January budget............	4.3	3.2	1.9	2.1
Administration compromise..............	0.1/ 0.2	0.1/ 0.2	0.1/ 0.2	0.1/ 0.2
Further increases in conference bill.........	2.2/ 4.9	2.0/ 2.5	2.0/ 2.5	2.0/ 2.5
Potential Farm Price Support program.......	6.6/ 9.4	5.3/ 5.9	4.0/ 4.6	4.2/ 4.8

The conference version of the farm bill, H.R. 6782, includes two major provisions with considerable impact on the Administration's Budget. Senator Dole's "flexible parity" provision would allow farmers to choose from three price support levels based on the percentage of acreage set aside.

The other costly provision, originating from a bill proposed by House Agriculture Chairman Foley and subsequently introduced in a more liberal form on the Senate floor by McGovern, would increase target loan levels and target prices for wheat, feed grains, and cotton.

USDA has incorporated both provisions in their cost estimates of the bill and provided a range based on varying weather and participation level assumptions.

	1979	1980	1981	1982
Highway-Transit Bill, H.R. 11733/S. 2440........	0.4	1.1	1.4	1.6

The House version of the Administration bill provides substantial increases for mass transit, bridge replace-ment, and primary highway construction. While the Senate version will probably be more responsive to budget restraint, our best estimate of the likely outcome on the bill indicates significant outlay increases will result.

Postal Service Act of 1977, H.R. 7700...........	0.8	0.8	0.8	0.8

The House bill provides $800 million increase to the public service provisions of the Act--a 40% increase to the 1979 budget request.

Work Incentives Program. S. 2779...................	0.7	0.7	0.7	0.7

The Senate-passed WIN program authorization adds $700 million to the Administration's $365 million request. Perhaps more significantly, the bill provides authorizations up to $1.5 billion beyond 1979 which is inconsistent with the Administration's objectives to terminate WIN by 1981 and replace it with welfare reform initiatives.

II. Inaction on Administration Cost Savings Legislation:

Social security..........	0.5	1.0	1.4	1.6
Rostenkowski substitute hospital cost containment proposal...........	0.4	0.6	1.5	2.7
Further savings lost if hospital cost containment legislation is not enacted.................	0.4	1.4	3.1	3.3
Other cost savings proproposals..............	0.7	1.2	1.4	1.5
Total..................	1.9	4.2	7.4	9.1

1.9
4.2
7.4
9.1
22.6

The Administration has asked the Congress to enact certain cost savings proposals. If the Congress fails to act, our outlay estimates must be revised accordingly. The Rostenkowski hospital cost containment plan imposes less stringent controls. If no cost containment legislation is adopted, the above total increases would result.

III. <u>Appropriations Bills</u>

The agencies have identified the following significant increases supported in the Congress.

Forest Service.............	0.2	0.4	0.6	0.6

Soil conservation, rural development and agriculture extension pro-

grams....................	0.3	0.6	0.8	0.8
Further "hard" local public works projects....	0.3	0.7	0.8	0.2
Interior appropriations...	0.2	0.2	0.2	0.1
Health programs...........	0.2	0.6	0.6	0.6
Education programs........	0.2	0.4	0.5	0.3
Veterans Health and GI bill benefits............	0.4	0.4	0.4	0.4
Summer Youth and Senior Community Service Employment Program............	0.2	0.4	0.4	0.4
EPA R&D, regulation and enforcement programs.....	0.1	0.2	0.4	0.7
Social services...........	0.1	0.3	0.5	0.6
Fiscal relief to states for public assistance costs..................	0.5	0.6	---	---
Special supplemental food programs.................	0.1	0.1	0.2	0.2
Supplemental security income benefits to territories..............	0.2	0.2	0.2	0.2
Community Services programs....................	0.1	0.1	0.1	0.1
Defense...................	0.5- 1.0	0.5- 1.0	0.5- 1.0	0.5- 1.0
Energy conservation and breeder reactor development....................	0.1	0.3	0.5	0.6
	3.7- 4.2	6.0- 6.5	6.7- 7.2	6.3- 6.8

Although these items individually pose substantial threats to the Administrations budget request, the appropriations committees historically have been able to hold appropriations totals under the President's budget and, in most years, have reduced proposed outlay levels.

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Appendix to Policy Rpt.	Names of Agents, 2 pp., attached to "Memos not Submitted	3/78	C
Memo	H. Jordan to Pres. Carter, 4 pp., re:Inflation Speech, attached to W.B. Cutler to Pres. Carter	4/12/78	C

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THE WHITE HOUSE

WASHINGTON

April 8, 1978

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT Stu

SUBJECT: Comments on First Draft of Inflation Speech

While the first draft of the inflation speech incorporates many of the suggestions which I had made, there are a few additional points which I would like to stress:

1) The speech is totally lacking in a history of inflation. It is critical to relate recent inflation to the rapid escalation of energy prices in the 1973-1974 period, the Russian grain deal, etc. We did not create this inflation but inherited it. It is due, in part, to factors over which we have little control. I have mentioned this to Charlie Schultze and he is drafting a paragraph or two on this. Page 7, last paragraph, would be an appropriate point.

2) The speech is structured in such a way that it makes it appear the federal government is the major cause of inflation. This faulty assumption (which implies that if only the President acted correctly inflation would drop) could be corrected by putting the deceleration program first or by a much stronger paragraph than that at the top of page 20.

3) By including several pages at the beginning on the dollar and energy, the speech is made considerably longer and more diffuse. In addition, we are saying nothing new about either problem. To the extent that this speech helps the dollar, it is the anti-inflation portion which would do so. By focusing the speech on inflation, the speech would be both shorter and more focused.

4) If you do wish to mention the energy bill, I would urge, on page 5, that the bracketed paragraph not be given. It would only invite one of two reactions -- either Congress

would feel it was off the hook on COET or it might start a move to take away your authority in this area. If you do wish to go ahead with such a statement, however, the language should be somewhat less threatening to the Congress. For example, "I will be prepared, if economic conditions warrant, to take Administrative actions on an interim basis to limit oil imports pending enactment of the energy bill..."

5) On page 2, line 1, the words "a quarter" should be "25 percent" or "one quarter."

6) On page 5, line 1, I would delete the phrase "political paralysis." This can be blamed on us.

7) Pages 6 and 7 dealing with exports should either be modified or deleted. The major problem with our trade balance derives from energy imports, not a lack of exports. In addition, I believe, as I think OMB does, that the third paragraph on page 6 will invite both agency and Congressional demands for all types of export incentives and may be counterproductive to efforts to eliminate the DISC and deferral provisions in the tax laws. In addition, the second paragraph on page 6 is overly broad, particularly, the first sentence. Last, the first full paragraph in the middle of page 7 indicates the difficult transition between the beginning portions of this speech dealing with energy and the dollar and inflation. Thus, the sentence on page 7 "Reducing our oil imports and expanding our exports will prepare us to fight inflation," is a non sequitur.

8) pages 8 through 10 are somewhat obvious and trite and add nothing to the speech -- but language. The second paragraph on page 8, which starts this portion of the speech, underscores this point. Thus, it takes more than facing these problems with seriousness to take measures required for success. Also the last sentence of the first paragraph on page 10 is probably inaccurate -- not <u>everyone</u> falls behind.

9) On line 1, page 11, I would change the words "I will not take" to "I will resist." If our voluntary program does not work and inflation worsens a Shermanesque statement on wage and price controls may come back to haunt us---particularly when controls mean different things to different people (Okun's tax plan was considered to be control by some). The point which should be made here is that no one wants controls and this voluntary plan is the best way to avoid them. It is terribly important that this speech make clear that the Federal government itself cannot curb inflation. While the Federal government can help avoid inflationary actions, only the private sector can keep inflation down.

10) On page 12 - 13 I strongly urge you to accept the language in the draft rather than that which had been proposed by Secretary Blumenthal in an earlier memo, since it is virtually impossible to reduce next year's deficit to this year's levels and will only set up an impossible goal we cannot come close to meeting. The language on page 13 needs to be made more precise. I would suggest a sentence to replace the last sentence of the carry-over paragraph on page 13 to read as follows: "If necessary, I will exercise my veto authority to assure that tax reductions, spending, and deficits in <u>next</u> year's budget are in line with my proposals."

11) On the bottom of page 13 you can strengthen the call for <u>no</u> pay raises for some as follows: "All executive appointees and members of my senior [secretaries, etc. should not be covered] staff will go without any pay raise this year. Furthermore, I urge the Congress to also forego any pay increases this year for Federal judges and for its members."

12) The last paragraph on page 15 is highly rhetorical. At the least, instead of saying "We must find ways," we should say, in light of your recent executive order, "We are developing ways."

13) On page 16, I would add Charlie Schultze's name to the next to the last line of the first paragraph, after the word Chairman.

14) On page 17 I would urge you to delete the first sentence at the top of that page, since we have agreed not to submit such legislation until after the passage of our airline deregulation measure. Mention of this now might establish additional roadblocks to passage of that legislation.

15) On page 18 I would suggest deleting the second sentence in the first paragraph at the top of the page dealing with wheat farmers, since all farmers are having problems and this simply singles them out. While it is true that our announcement of administrative steps to help farmers last week indicated we would be open to legislation for higher target prices for wheat farmers, there is little reason to mention that in an anti-inflation speech. Even more important, the language in the last sentence of that paragraph is overly broad and can potentially get us in trouble -- it would commit us to veto even a clean bill simply raising wheat target prices, which we pledged to accept. I suggest replacing it with a sentence that says, "Consequently, I will veto the legislation which recently

passed the conference committee since it would lead to double-digit food prices."

16) On pages 18 and 19, dealing with timber, it will be very difficult to get this through Congress. Additional cutting will require additional staff for the Forest Service and thus additional budget costs, and the impact on inflation is likely to be very small and to be felt only many years from now. Also, lumber accounts for one-sixth not one-fourth of the total cost of a new house (page 18). However, if you want to mention this, it will help with the environmental community to state this as follows: "Therefore, I have instructed the Departments of Agriculture and Interior, together with my economic advisors and the Council on Environmental Quality, to report to me within 60 days on ways of expanding production on state and private lands, the feasibility of expanding timber harvests from Federal lands on a sustained-yield basis, and other federal actions to increase lumber supplies."

17) The last phrase at the end of the first full paragraph on page 21 makes no sense and should be deleted. It also could be read to be potentially coercive in what is a voluntary program.

18) In the last paragraph on page 22 there is a statement that business leaders have promised their cooperation. I am checking with Charlie to make sure this is the case.

19) The last paragraph on page 24 is very unclear and could be deleted. In any event, "recognition of waste... in our demands for public services" is somewhat vague and a potentially politically difficult statement.

20) I suggest on page 25 deleting "for a moment," since it will take longer than a momen for our voluntary program to work.

One issue not addressed in the speech, because of your earlier indication of opposition, involves the creation of an inflation czar. As was indicated in the anti-inflation options memo you reviewed before your trip, I strongly favor the creation of such a position. We need a high-visibility official, well-respected in the business and labor communities, to be a continuing, public force against inflationary actions. Such a person could work full-time jawboning labor and business and making statements against inflationary actions in the public and private sectors. I believe Bob Strauss is such a person, if no one could be found outside the government.

If he is not the person, I think the speech should at least publicly designate Charlie Schultze, as the Chairman of COWPS, to be your key designee in the fight on inflation.

Attached is a copy of a memorandum and a proposed insert from Henry Owen, which Henry asked me to forward to you. He indicated that it has been checked with Charlie Schultze and Dick Cooper.

cc: Jim Fallows

THE WHITE HOUSE

WASHINGTON

April 8, 1978

MEMORANDUM FOR: JIM FALLOWS

FROM: HENRY OWEN HO

SUBJECT: Proposed Insert in Inflation Speech

1. When the President lunched recently with Prime Minister Callaghan, he said that he would relate steps he intended to take on inflation and energy to the wider international effort that Callaghan was advocating.

2. Matsukawa, the Japanese Deputy Finance Minister, when I saw him last week, also stressed his hope that the President would indicate the relation between his anti-inflation measures and the wider international economic effort in which Japan would play its part.

3. It is in our interest to make this link for several reasons, including the implicit pressure that it puts on the Germans and Japanese to fulfill their part of the wider effort: higher growth Schmidt referred, when I saw him last week, to the relation between what we do on inflation and energy and what they do on growth.

4. Proposed language is attached. I have checked it with Charlie Schultze and Dick Cooper. I will check it with Mike Blumenthal first thing Monday.

5. The Summit announcement mentioned in this language is a statement that will be issued simultaneously in the seven capitals concerned Monday, saying when the Summit will be held and underlining the need for a concerted international effort.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

April 8, 1978

MEMORANDUM FOR THE PRESIDENT

From: Charlie Schultze

Subject: Inflation Speech

I have read Jim Fallows' draft and Stu's memo which was telexed to you this afternoon. There are several points in Stu's memo with which I disagree, and one general point I would like to make.

The substantive elements in the speech will not themselves do much to reduce inflation. The whole purpose of the speech is to establish your own commitment to inflation-fighting as evidenced by your willingness to take some politically difficult steps. This is absolutely necessary as a prelude to getting cooperation out of the stubborn and reluctant business and labor communities. Any sign that the speech was "artfully" written to waffle on the tough issues will be picked up and emphasized by the press. The impact of the speech will be substantially reduced.

1. In Stu's comment 9 about wage and price controls he urges that you change the words "I will not take" to "I will resist." This will be read as a substantial weakening of opposition and probably lead to anticipatory wage and price increases.

2. The language on the budget, on pages 12-13, is not only weaker than Secretary Blumenthal's suggestion but weaker than the CEA suggestion. I recommend that you strike the last four lines on page 12 and the top seven lines on page 13 of Jim's draft. Instead, I suggest that you substitute: "There must be a voice for fiscal restraint, and a willingness to make hard choices about how to use our limited resources. I will work closely with the Congress to make these choices. But if necessary I will also use the full powers of my office, including the veto authority,

to assure that the expenditures in my budget are not exceeded and that tax reductions are held to the amounts I have proposed. In this way, the budget deficit will be held at or below the limits I set forth in January."

3. Stu recommends (comment 14) that we delete the reference to trucking deregulation at the top of page 17. It is already a mild statement. We do intend to proceed, even though timing and specifics are as yet unsettled. Everyone knows this. Why delete it?

4. Stu recommends (comment 15) that you water down the commitment on farm legislation (p. 18) from a veto of anything which goes beyond your recommendations to simply a veto of the Conference bill. I urge that you keep to the language in the Fallows draft. We may well get a bill less damaging than the Conference bill but more generous than what we have agreed to. Why invite such an outcome? (I agree with Stu there is no need to single out wheat farmers in this paragraph.)

5. Stu recommends (comment 16) that you weaken the lumber price statement by asking for a report on "ways of expanding production on state and private lands, the feasibility of expanding timber harvests from Federal lands..." This is very weak. For legal reasons, you do have to avoid ordering the Secretaries, in the speech, to adopt a program of timber expansion. But the language in the Fallows draft is O.K. The immediate impact of whatever we do will be small, and there will be difficulties. But inflation will be with us for a long time, and we must begin on lumber now. Secretary Andrus also feels strongly that there are steps we can take to accomplish timber expansion objectives. Finally, in 1977, lumber, millwork and flooring accounted for 34 percent of the cost of a new single family home (excluding land costs). Stu's estimate apparently applies (a) to lumber only, (b) includes multi-family units, and (c) is an average from the 1960s.

6. The last line on page 21 should read "developments in specific private markets..."